

Introduction

- 7.1 On 23 May 2000 we presented our report *Student Loan Scheme – Publicly Available Information*¹ to the Education and Science Committee. In that report we looked at:
- the Student Loan Scheme (the Scheme);
 - those who have a stake in the scheme – either as borrowers or administrators, or those who otherwise expect some accountability for the scheme;
 - what their information requirements are; and
 - whether, in our view, those requirements were being met.
- 7.2 We did not look at the effectiveness of the Scheme in achieving its stated purpose.
- 7.3 The purpose of this article is to report what action has been taken to address the key findings and implement the recommendations in our 2000 report.

Summary of Our 2000 Report

What Did We Find?

- 7.4 We found that:
- Although key stakeholders received adequate information on the current financial position of the Scheme at an aggregate level there were shortcomings in publicly available information. In particular –
 - limited information on the fiscal status attached to the Scheme; and
 - lack of information on the impact of the Scheme on intended and unintended socio-economic outcomes.

1 ISBN 0-477-02868-3.

- The valuation of the student loan debt needed to be reviewed – especially in the light of the expected adoption of the net present value (“fair value”) model for valuation (see paragraphs 1.36-1.40 on pages 18-19).
- The following related capability and accountability issues needed to be addressed to provide better public accountability information –
 - fragmented responsibility for the Scheme as a whole;
 - lack of focus of strategic policy advice and research;
 - shortcomings in data collection, analysis, and exchange;
 - shortcomings in forecasting;
 - lack of the system’s responsiveness to change; and
 - gaps in service to borrowers.

What Did We Recommend?

7.5 We made 16 recommendations that fall into the following two broad areas:

1 **Reporting requirements**, which included –

- the **financial position** of the Scheme (2 recommendations – see paragraphs 7.6-7.14);
- **fiscal risks** attached to the Scheme (2 recommendations – see paragraphs 7.15-7.20); and
- better **measures of the financial performance and outcomes** (both intended and unintended) of the Scheme (4 recommendations – see paragraphs 7.21-7.33).

2 **Capability and accountability issues**, which included –

- reviewing the **fragmented responsibilities** of the various agencies² involved in the Scheme (2 recommendations – see paragraphs 7.34-7.42);
- lack of focus around **strategic policy advice and research** in relation to the Scheme (2 recommendations – see paragraphs 7.43-7.48);

² The Ministry of Education, the Ministry of Social Development, and the Inland Revenue Department.

- shortcomings in **data collection, analysis, and exchange** (3 recommendations – see paragraphs 7.49-7.59); and
- gaps in **service to borrowers** (1 recommendation – see paragraphs 7.60-7.68).

Reporting Requirements

The Financial Position

7.6 In 2000, we recommended:

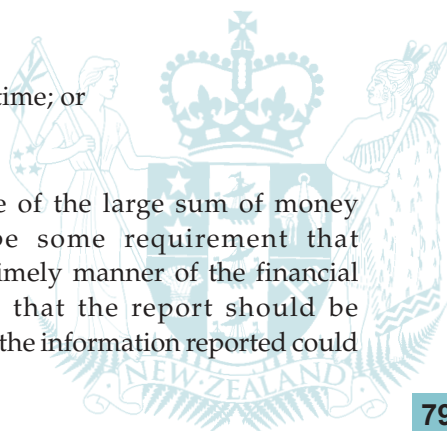
- reporting more regularly – for example, reporting at quarterly intervals as stated in the original Government decision on reporting on the Scheme; and
- having the annual financial reports audited and presented to the House within the time required for departmental annual reports (sections 35-39 of the Public Finance Act 1989).

7.7 We made these recommendations on the basis that the financial reporting framework approved by the Cabinet in 1995 required the Ministry of Education (MoE) to publish a quarterly report on the financial status of the Scheme. This requirement is also in line with government departments producing quarterly financial reports to their Ministers.

7.8 The *Student Loan Scheme Annual Report* (the *Annual Report*) published by the MoE was the key accountability report on the Scheme. However, there was no statutory requirement for this report to be:

- presented to the House;
- produced within a certain time; or
- audited.

7.9 We considered that, because of the large sum of money involved, there should be some requirement that Parliament be advised in a timely manner of the financial status of the Scheme, and that the report should be audited to give assurance that the information reported could be relied upon.



- 7.10 **In this review we found that** full financial status reporting is still not being done on a quarterly basis. The MoE considers that, because Ministry of Social Development (StudyLink) borrowing data is transferred to the Inland Revenue Department (IRD) only once a year and interest write-offs are calculated annually, the financial performance and position of the scheme would not be accurately reflected on a quarterly basis.
- 7.11 The MoE notes that quarterly transaction reports are published on departmental web sites, and the combination of these reports and the detailed quarterly monitoring and forecasting report cover much of what was sought by the Government in 1995 and (in many areas) goes beyond what was requested.
- 7.12 We consider that the MoE needs to regularise the existing situation in relation to quarterly reporting by taking the matter back to Cabinet.
- 7.13 An inter-agency steering group handles the collation of the *Annual Report* and this process appears to be working well. The information contained in the *Annual Report* has continued to improve since our 2000 review and includes more information than the format agreed by the Government in 1995.
- 7.14 The *Annual Report* for the year ended 30 June 2002 (which was presented to the House on 8 October 2002) includes a full set of financial statements – including statements of revenue and expenditure, assets, and cash flows. The financial statements have been audited and an unqualified opinion expressed (which means that they comply with generally accepted accounting practice) on 25 September 2002.

Fiscal Risks

- 7.15 **In 2000 we recommended that:**
- more information on fiscal risk should be included in reports to Ministers and Parliament;
 - the agency responsible for managing the fiscal risks of the Scheme regularly reviews the Crown's credit risk from the Scheme; and

- an interim response be devised (until fair value methodology is adopted) to the issue of lack of appropriation for debt write-offs.
- 7.16 **We made these recommendations on the basis that** the degree of credit risk (which relates to the collectability of debt) on the student loan debt was not clear, and there was no evidence that debt recovery figures were reviewed on a regular basis.
- 7.17 Lack of information made it difficult to assess bad debts, and to adequately value the student loan debt in the Crown’s Statement of Financial Position.
- 7.18 In addition, the maximum level of individual debt had increased significantly from the original estimates, with about a dozen students having debts in excess of \$100,000.
- 7.19 **In this review we found that** the most significant fiscal risk in relation to the Scheme is still the provision for doubtful debts. The MoE, in consultation with the Treasury and the IRD, had reviewed the provision for doubtful debts³, which was then checked by an independent consultant and reflected in the Crown’s *Financial Statements* for the year ended 30 June 2002. The provision was set at 11.4% for 2001-02. The basis of the calculation, the assumptions on which it is based, and the effect of a 1% shift – which will have a \$50 million impact on the provision – is clearly shown in the *Annual Report* to 30 June 2002.
- 7.20 In future, an actuarial valuation or fair valuation of the student loan debt will be undertaken. It is intended that the valuation will be available for the year ending 30 June 2003. This valuation will be updated annually and will be used to “test” the reasonableness of the provision for doubtful debts. The actuarial valuation will also be shown by way of a note to the Crown’s *Financial Statements* to offer fuller explanation of the debt.

3 The provision for doubtful debts effectively allows for the amount of debt that potentially will not be collectable – for example, future write-offs due to students dying before their loans are repaid, loans discharged due to bankruptcy, and debt that will not be repaid due to borrowers not reaching the income threshold for making repayments.

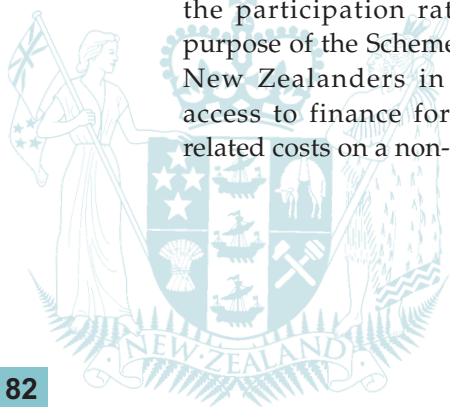
Measures of Financial Performance and Outcomes

7.21 In 2000 we recommended:

- including in reports to Ministers and Parliament – especially the *Annual Report* – more information on financial projections and financial performance, and more detailed analysis of past uptake and repayment patterns;
- including in financial forecasts for the Scheme assumptions and risk assessments;
- creating and reporting against a set of indicators for the financial performance of the Scheme; and
- creating and reporting against a set of coherent and assessable outcome indicators for the Scheme – including both intended and unintended outcomes.

7.22 We made these recommendations on the basis that the 3-year forecast of the student loan debt in the *Annual Report* showed only a single estimate of the student loan debt outstanding (rather than a range of estimates) with little in the way of support or assumptions. We considered that lack of any detailed publicly reported long-term forecasts had led to a number of queries from stakeholders about the future expected size of the student loan debt and when it would reach equilibrium. There was a lack of publicly available information on how forecasts were modelled and why they changed – and, therefore, a lack of understanding of the forecasts.

7.23 We also noted that the impact of the Scheme on the participation rate was not known – although the purpose of the Scheme is to support the participation of all New Zealanders in tertiary education by providing access to finance for tuition fees and other education-related costs on a non-selective basis.



7.24 In addition, apart from reference in the MoE’s AC Nielsen report that there was evidence of students choosing “more cost effective options” – i.e. “courses that are shorter, more practical and with more external outcomes” – there has been no research by MoE on the:

- impact of study costs and student loans on choice of study;
- relationship between fees, allowances, subsidies to tertiary education providers, and the demand for student loans; and
- impact of student debt on life choices – such as marriage and family, and the ability to raise further loans, invest, or save for retirement.

7.25 **In this review we found that** the *Annual Report* still includes only a few of the key assumptions underlying the financial forecasts – in particular, participation and income growth. The TESLA model⁴, however, is built on a broader range of assumptions than these – for example, assumptions are made about: inflation, determinants of borrowing and repayment, and distribution patterns of individuals’ borrowing and repayment history. These assumptions and an assessment of their validity over time should be included in the *Annual Report*.

7.26 In relation to outcome indicators, the joint Ministers approved a set of “best possible” socio-economic indicators. At the time it was recognised that the use of these indicators would depend on the data set available and that most of the socio-economic indicators would be impossible to calculate without full data integration (see paragraph 7.68 on page 93). The outcome indicators include:

- repayments, income, total debt and expected repayment profiles by ethnicity, course, decile and location of secondary school, tertiary education provider, and occupation of borrower;

4 The ‘TESLA model’ is the Tertiary Education Student Loan Analysis. It generates a profile of borrowers based on demographic statistics and historic aggregate Student Loan Scheme data obtained from the agencies administering the Scheme.

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- effect of loans on study choice;
- the proportion of borrowers going overseas, those that return within certain times and those overseas who repay their loans; and
- the proportion of borrowers who enter employment and stay in employment.

7.27 These indicators do not address the unintended future outcomes of the Scheme.

7.28 The MoE considers that reporting on most of the indicators is dependent on finalising the data integration, and that reporting on some indicators (such as the effect of loans on study choice) is not possible with any level of precision as it is not possible to control many other variables. The MoE also has concerns about the extent to which it is possible to conduct robust qualitative research on this sort of topic.

7.29 However, the MoE acknowledges that it is possible to conduct research on the relationship between student loan debt and some factors outside tertiary education. The recent analysis by Scobie and Gibson⁵ of the Household Savings Survey dataset is an example. This study looked at a number of issues – including explaining the differences in individual wealth, ethnic differences in the level of observed net wealth, and the impact of the Scheme.

7.30 The MoE has access to a large amount of data about student loans and we consider that, although difficult, more analysis needs to be done, having regard to any methodological constraints. The results obtained from such analysis could be used to research and compare the impacts of the Scheme over time.

7.31 In addition, in May 2002 the MoE conducted a reader survey to determine what information the readers would like to be included in the *Annual Report*. The survey resulted in the inclusion of information on:

- student loan uptake;

⁵ Grant M. Scobie, and John K. Gibson, *Individual Net Wealth in New Zealand: A Preliminary Analysis Based on a New Survey*, the Treasury, 2002. The work in relation to the Scheme focused on non-partnered individuals and sought to test seven hypotheses about the impact of student loan debt on mortgages, total value of property assets, and the number of children.

- fees borrowed by provider type;
- background on enrolments/participation trends;
- tertiary education sector – international comparatives; and
- further demographic data on borrowers.

Capability and Accountability Issues

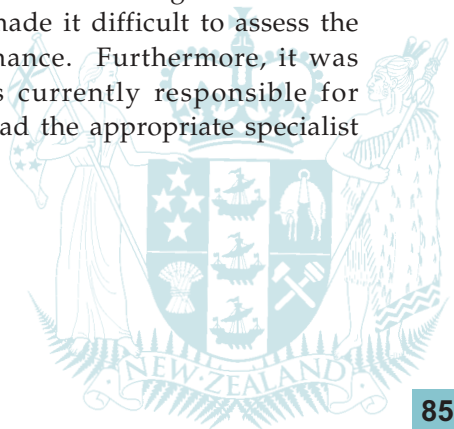
Fragmented Responsibilities

7.32 In 2000 we recommended:

- reviewing the current fragmentation of responsibilities for the Scheme; and
- considering (as part of that review) the suggestion of establishing a separate agency (with the appropriate specialist skills) with overall responsibility for strategic risk management of the Scheme and for financial reporting on the Scheme.

7.33 **We made these recommendations on the basis that,** although the fiscal risks were significant, the management of them was not clearly the responsibility of any particular agency or group of agencies. Individual agencies had “administrative” responsibility for uptake and collection, and for rules about eligibility and entitlement, but responsibility for managing the fiscal risks attaching to the Scheme as a whole was not clear.

7.34 We noted that the Crown did not manage the Scheme as a separate fund, which made it difficult to assess the Scheme’s financial performance. Furthermore, it was unlikely that the agencies currently responsible for administering the Scheme had the appropriate specialist skills to manage such a fund.



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7.35 It was suggested to us during the course of our review that one option for improved strategic risk management could be the establishment of a separate agency (or separate unit within an existing agency).

7.36 **In this review we found that** no agency has yet been given the overall responsibility for the Scheme. An August 2001 officials' report to the Joint Ministers said that:

- The issue of a stand-alone agency was considered but rejected on the basis that the costs of establishing a separate agency would outweigh the benefits.
- The main benefits of having a separate agency were seen to be better incentives for debt collection and improved collation of information.
- However, it was noted that there had been no issues with IRD's performance in relation to debt collection, and an integrated data set (which was at that time being established) would improve the collation of information.

7.37 The protocol entered into between the MoE, the Ministry of Social Development (MSD), and the IRD in 1999 remains the key mechanism to govern agency responsibilities, including responsibilities for the strategic and operational policy. The protocol defines the scope of policy issues relating to student allowances and student loans, and clarifies the practicalities of the day-to-day working relationship among the parties.

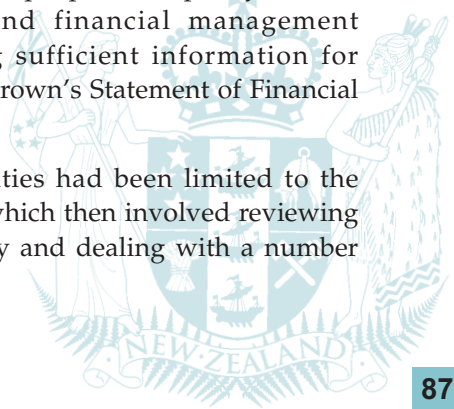
7.38 An annex to the protocol (Annex D) has been drafted to clarify the allocation of responsibility for producing the *Annual Report*. Overall responsibility for co-ordination and production of the report lies with the MoE, with oversight exercised through an inter-agency steering group.

7.39 A review group of representatives from each agency meets 2-3 times each year to discuss the protocol and how the relationships are being managed under the protocol. It was agreed late last year to update the protocol to reflect changes to entities (the creation of the MSD from the Department of Work and Income and Ministry of Social Policy; and the creation of the Tertiary Education Commission) and their roles, and to redefine existing descriptions to better reflect what has changed.

- 7.40 There is no formal agreement that assigns overall responsibility for management of the fiscal risks attaching to the Scheme as a whole. We consider that this aspect could be included in the protocol.
- 7.41 The parties to the protocol consider that agreement under the protocol should be restricted to policy and delivery responsibilities, and that the Treasury (which is not a party to the protocol) has an over-riding responsibility for management of the risks relating to significant items in the Crown's Statement of Financial Position – including the Scheme debt. However, the fact that the protocol parties hold that view does not, in our opinion, constitute a formal assignment of responsibility for management of the fiscal risks attaching to the Scheme. We believe that, if not in the protocol, overall responsibility for management of the fiscal risks should be assigned by some other formal mechanism.

Strategic Policy Advice and Research

- 7.42 **In 2000 we recommended:**
- clarifying the responsibility of the MoE for strategic policy advice on the Scheme – including the purpose and role of research (and its adequate resourcing) and what reporting obligations are included; and
 - that the MoE commission research on the areas of socio-economic impact where there is no information.
- 7.43 **We made these recommendations on the basis that** the MoE was responsible for strategic policy on the Scheme. The MoE was therefore responsible for collecting adequate information for the purposes of policy advice, costing of that advice, and financial management of the Scheme – including sufficient information for the Treasury to analyse the Crown's Statement of Financial Position.
- 7.44 In practice the MoE's activities had been limited to the current work programme – which then involved reviewing the interest rate methodology and dealing with a number of minor anomalies.



- 7.45 The objectives of the MoE’s research strategy were not clear. This was of concern because the research role is critical to the quality of policy advice.
- 7.46 The MoE had not commissioned any research on the socio-economic impact of student debt.
- 7.47 **In this review we found that** the MoE has not given consideration to any broader future outcomes of student loan debt. The MoE accepts that it is responsible for strategic advice on student loans, but its advice has been primarily focussed on issues of “equity, integrity and public perception” and on the impacts of the loan scheme on the tertiary education sector – students, providers, participation, etc.

Data Collection, Analysis, and Exchange

7.48 **In 2000 we recommended:**

- clarifying other agencies’ accountability for collecting and exchanging data for monitoring against socio-economic indicators – to ensure that those agencies supply the appropriate information in a timely manner;
- that Statistics New Zealand undertake a trial integration of selected datasets relating to the Scheme with a view to providing statistics to inform strategic policy, financial risk management, financial reporting, and forecasting; and
- directing officials of the relevant agencies to resolve the data exchange issues hindering analysis of the impact of the Scheme.

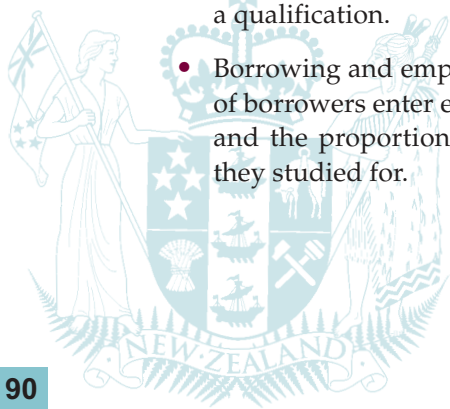
7.49 **We made these recommendations on the basis that** the systems of the agencies that were responsible for administering the Scheme were focused on processing uptake of loans or collection of debt, rather than collecting data to enable analysis for policy purposes. This situation was primarily due to a lack of clear accountability for obtaining, analysing, and reporting information for policy analysis purposes. Consequently, departmental performance was assessed against various processing

measures, with no agency being accountable for ensuring that the overall outcomes of the Scheme were met.

- 7.50 Effective policy analysis and evaluation, costing and production of student loan statistics require access to and, most usefully, matching of unit record data. This requires data exchange between agencies responsible for administering the Scheme – particularly from the MSD and the IRD to the MoE, because the MoE is responsible for forecasting and strategic policy advice.
- 7.51 No arrangements have yet been put in place to exchange data at the level required to adequately support strategic policy advice, strategic risk management, forecasting, and financial reporting.
- 7.52 We considered that the matching of data from the IRD, the MoE and the MSD at a unit record level would significantly increase the capacity to carry out research on the effects of the Scheme. It is technically feasible to integrate data across agencies.
- 7.53 **In this review we found that** a feasibility study was completed in May 2001. Privacy, logistical, and data issues around data integration were resolved by April 2002 – at which time Cabinet approved funding for the establishment of the integrated dataset.
- 7.54 Work proceeded on merging educational data from the MoE and data on student loans from the MSD with income and loan data from the IRD at an individual student level to establish the integrated dataset.
- 7.55 An inter-agency Service Level Agreement for the integrated dataset on student loan borrowers was negotiated between the IRD, MoE, MSD and Statistics New Zealand (SNZ). The purpose of this agreement was to confirm a process for SNZ to establish, maintain, and annually update an integrated dataset on student loan borrowers, and to confirm each agency's responsibilities within this process. SNZ has integrated MoE data on tertiary enrolments, MSD and student Loans Account Manager data (which is held by IRD) on borrowings, and IRD data on loan repayments and incomes. SNZ is the custodian of the integrated dataset.

7.56 The MoE has told us that it anticipates that the data integration will also enable more detailed information to be reported in future *Annual Reports*. The MoE intends to analyse the data for the effects of the Scheme on tertiary study, and subsequent employment and income. It intends to cover the following topic areas:

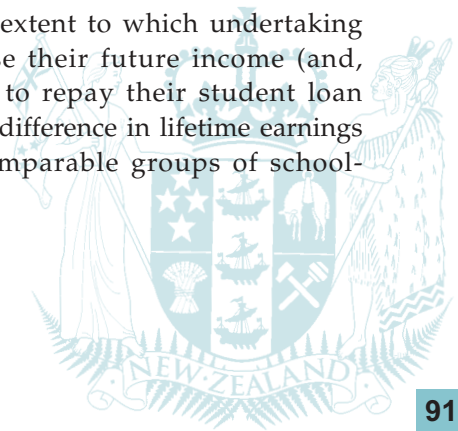
- Tertiary study and student debt – looking at the levels of debt for different student groups, the debt for different courses of study, and the level of debt written off.
- Student loan debt repayments – establishing the difference in repayment profiles for different groups and courses of study.
- Students who go overseas – looking at numbers going overseas, the numbers returning, how many are repaying their debt while away, and whether their demographic characteristics differ.
- Income earnings for students – establishing the post-study income level (compared to non-borrowers of the same age), differences in income for different groups and different courses of study and how these compare with non-borrowers and those without tertiary qualifications, and the effective income profile of students after repayments.
- Borrowing, participation, and achievement in tertiary education – analysing how participation has changed for different groups and different courses of study, how different groups differ in their use of the Scheme, differences in completion rates for borrowers and non-borrowers for different groups or courses of study, and the proportion of borrowers who never complete a qualification.
- Borrowing and employment – assessing what proportion of borrowers enter employment and stay in employment, and the proportion of borrowers working in the fields they studied for.



- 7.57 On 31 March 2003, an officials group led by SNZ reported to the Minister of Statistics and the Associate Minister of Education (Tertiary Education) on options for expanding the integrated data set to topics outside student loans. The group identified three topics that are viewed as priorities for expansion – Student Allowances, Training Incentive Allowances, and graduate outcomes and destinations.
- 7.58 The MoE has been given full access to MSD’s information analysis platform (IAP) and uses the data from this source to forecast loans and allowances expenditure for MSD as well as to provide information to underpin policy advice. The MoE considers that IAP is essential to the analysis of the uptake of loans and the analysis of loans by component.

Service to Borrowers

- 7.59 **In 2000 we recommended** revising the information for students to ensure that they receive adequate information on repayment choices and the potential impact of having a student loan.
- 7.60 **We made this recommendation on the basis that** no budgetary information was offered to students other than a “budget planner” in the booklet provided to students applying for a loan – which helps students calculate how much to borrow, not how long it will take to repay the loan nor the impact on their ability to raise other finance post-study.
- 7.61 In addition, students and other stakeholders did not receive information on the extent to which undertaking tertiary study may increase their future income (and, consequently, their ability to repay their student loan debt). Past estimates of the difference in lifetime earnings had not been based on comparable groups of school-leavers.



7.62 We considered that:

- students needed more effective assistance in calculating the benefit of faster repayment through voluntary payments; and
- borrowers poorly understood the obligation to make repayments when overseas (and the penalties incurred for not doing so), although the IRD had a booklet available on the subject.

7.63 **In this review we found that** good electronic linkages had been established between the IRD, MSD (StudyLink) and MoE web sites and that (combined) the three sites offer comprehensive advice to students on the Scheme – including what a loan is, how to apply for one, how the loan is repaid, and obligations for repayment when overseas.

7.64 There have also been some improvements in the information booklet published jointly by StudyLink and IRD, in that it now:

- encourages students to consider, before taking out a loan, whether they could finance their studies without a loan and to understand what's involved in paying back a loan;
- clearly advises the student to borrow only as much as they need and to pay back the loan as fast as they can;
- includes an example to illustrate the effects that borrowing less and paying back extra has on the length of the repayment period and the amount of interest paid; and
- has the budget planner near the front of the booklet (where previously it was at the back), which helps the student to calculate how much they need to borrow.

7.65 The booklet could, however, be improved further by including a link to the IRD repayment calculator as well as a manual version in the booklet with the budget planner.

- 7.66 The IRD has also told us that it has taken steps to encourage those with the ability to make voluntary repayments to do so – through, for example, on-screen advertisements in cinemas.
- 7.67 The MoE also has a loan estimator – this can be found at – <http://www.minedu.govt.nz/goto/studentloans>.

What Still Has To Be Done?

- 7.68 In our view, good progress has been made in some areas – improved financial reporting and the progress towards the integrated dataset. However:
- Approval has been given to fund the actuarial valuation. The MoE needs to ensure that this project proceeds and that the current method of provisioning for doubtful debts is tested against the actuarial valuation and any differences explained.
 - Further progress needs to be made in relation to providing additional information and explanation of forecasts, ranges, assumptions, and analysis of fiscal risks.
 - The next stage in development of the integrated dataset – the analysis of the data for research and policy work and improved reporting on the Scheme by the MoE, the IRD and MSD – will be just as, if not more, important than the first stage. This use of the data needs to be monitored and evaluated by an inter-agency group to ensure that the benefits of the project are being achieved.
 - Progress needs to be made in relation to clarifying a complete, feasible set of socio-economic indicators. If the MoE does not consider that it is the appropriate agency to either undertake or commission research in this area, another agency needs to be allocated this task. An inter-agency group may need to be established to ensure that progress is made.
 - The service to borrowers could be further improved by establishing a better link to the repayment calculator, and by providing more information on future incomes resulting from study.

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7.69 We note that the following key questions may not be able to be answered, even with data integration:

- the impact that student loans have on future ability to raise a mortgage or buy a car, the decision to have children, and the ability to save for retirement; or
- the impact on participation and study choice – analysed by gender, ethnicity, and socio-economic group.

7.70 Some questions, which can be answered from data integration, may not be answered for some time. Research is needed to address such questions in the meantime.

